



**CITY OF LODI
COUNCIL COMMUNICATION**

AGENDA TITLE: Adopt Resolution Rescinding Resolution No. 2007-13 and Approving the Revised Electric Reserve Policy

MEETING DATE: March 16, 2011

PREPARED BY: Electric Utility Director

RECOMMENDED ACTION: Adopt a resolution rescinding Resolution No. 2007-13 and approving the Revised Electric Reserve Policy.

BACKGROUND INFORMATION: On January 17, 2007, the City Council adopted Resolution No. 2007-13, establishing an Electric Reserve Fund Policy. The Policy set an initial Electric Reserve Target Level of \$12.9 million as follows:

Operating Reserves: \$8.2 million, equal to 45 days of budgeted operating costs
 Capital Reserve: \$500,000, equal to the cost of largest distribution system contingency
 Rate Stabilization Fund: \$4.2 million, equal to 20 percent of annual market power costs

The Electric Utility Department's available cash reserves as of June 30, 2010 were \$12.1 million compared to the \$3.6 million cash reserves available June 30, 2006. The Policy also provided for an updated assessment of the Target every three years with a report to the City Council.

The attached report provides the City Council with an updated assessment of prudent cash reserve levels for Lodi Electric Utility. Staff recommends the City Council rescind the current resolution and adopt a resolution revising the Electric Reserve Policy as follows:

Fund Designation	Basis	For FY 2011
Operating Reserve	90 days cash on hand	\$18,900,000
Capital Reserve	Largest distribution system contingency	\$ 500,000
NCPA - General Operating Reserve	As identified by NCPA plus allowance for unanticipated studies	\$ 9,300,000

APPROVED: 
 Konrad Bartlam, City Manager

FISCAL IMPACT: No immediate fiscal impact is projected by the adoption of the Revised Electric Reserve Policy.

FUNDING: None at this time.


Elizabeth A. Kirkley
Electric Utility Director

PREPARED BY: Matt Foskett, Rates and Resources Manager

EK/MF/lst

**UPDATED ASSESSMENT OF PRUDENT
CASH RESERVE LEVELS FOR LODI ELECTRIC UTILITY
OCTOBER 2010**

PURPOSE

To report to the City Council an updated assessment of prudent cash reserve levels that should be maintained by Lodi Electric Utility.

BACKGROUND

A November 2006 study by Navigant, Inc., commissioned by the City of Lodi recommended that the City's Electric Fund maintain cash reserves as follows:

Fund Designation	Recommended Minimum Balances as of 2007	Basis
Operating Reserve	\$ 8,200,000	45 days of budgeted operating costs
Capital Reserve	\$ 500,000	largest distribution system contingency (replace a substation transformer)
Rate Stabilization Reserve	\$ 4,200,000	10% of all annual power costs
Total Cash on hand	\$ 12,900,000	

On January 17, 2007, the City Council adopted Resolution No. 2007-13, Establishing an Electric Reserve Fund Policy ("Policy"). The Policy set an initial Electric Reserve Target Level ("Target"):

Fund Designation	Recommended Minimum Balances as of 2007	Basis
Operating Reserve	\$ 8,200,000	45 days of budgeted operating costs
Capital Reserve	\$ 500,000	largest distribution system contingency
Rate Stabilization Reserve	\$ 4,200,000	20% of annual spot market power costs
Total Target	\$ 12,900,000	

The Policy included City Council endorsement of a program to increase cash reserves to the Target by June 2010. The Policy also provided for an updated assessment of the Target every third year.

This report is the updated assessment.

DISCUSSION

A. Status of Original Target: The Target was reached by June 2010. As of June 30, 2010, Electric Fund Cash Reserves stood at (unaudited):

Location	Balance
Lodi	\$ 12,125,835
NCPA General Operating Reserve	\$ 11,011,668
Total Cash on hand	\$23,137,503

B. Updating the Target: In updating recommendations for the prudent cash reserve levels, the following information is taken into consideration:

1. In its annual budget, NCPA lists a number of contingent liabilities for Lodi to address by maintaining funds in its account in the NCPA General Operating Reserve (rounded here):

	Contingent Liability	Required Funding for FY 2011
a	Hydro Plant & Western Dry Year	\$ 2,800,000
b	Self-insured Loss on Plants	\$ 2,700,000
c	Unfunded Geo Decommissioning	\$ 2,600,000
d	Market Volatility Cost Reserve	\$ 700,000
e	Other (combined)	\$ 200,000
	Total Cash Target in GOR	\$ 9,000,000

a. Hydro Plant & Western Dry Year: Lodi's share of replacement power cost difference between average and dry year generation in NCPA's Hydro Project and Lodi's allocation of Western Area Power Administration Base Resource for a single year.

b. Self-insured Loss on Plants: Lodi's participant share of insurance deductibles, self-insured retentions, or uninsured risk in the event of the "highest probable", "not worst case scenario", property loss.

c. Unfunded Geo Decommissioning: Lodi's participant share of estimated decommissioning cost of NCPA Geothermal Projects, less funding and interest to date.

d. Market Volatility Cost Reserve: Difference between high and median average annual electric market prices (\$/MWh) times estimated Lodi spot market purchases.

e. Other: Levelization of Lodi's share of future NCPA staff benefits costs and NCPA general loss liability insurance deductible.

2. The Rate Stabilization Reserve is redundant with the NCPA Market Volatility, Western, and Hydro Plant contingencies, as well as the working of the Lodi EUD Energy Cost Adjustment (ECA) that works to pass through normal volatility to customers.

3. Fitch Ratings, in its June 2010 U.S. Public Power Peer Study Addendum finds that the public power retail utilities it rates "A" average 107 days of cash on hand. Public power retail utilities rated AA by Fitch average approximately 121 days of cash on hand. Lodi's rating affects the interest paid on future Lodi financings and refinancings as well as those of NCPA Plants from which we take cost-based output. The proposed Westside Substation, White Slough Substation, and 60 kV power line to White Slough will require financing as may some green energy projects under study.

4. In a recent survey of NCPA Members, Members specified Operating Reserves policies with minimum days' cash of: 145, 146, 90, 55, 110, 61, 91, and 150. This averages to 106 days' cash, in addition to any reserves for Capital, Rate Stabilization, or NCPA-identified issues.

5. In many years, significant studies are undertaken that are not anticipated at budget time. For example, NCPA is now studying three proposals for renewable, non-Greenhouse Gas energy supplies. Lodi's participant share of such studies could exceed \$300,000 in a year.

RECOMMENDATION

It is recommended that:

1. the City Council revise the next interim Electric Reserve Target Level to:

Fund Designation	Basis	For FY 2011
Operating Reserve	90 days cash on hand	\$ 18,900,000
Capital Reserve	Largest distribution system contingency	\$ 500,000
NCPA - General Operating Reserve	As identified by NCPA plus allowance for unanticipated studies	\$ 9,300,000
Total Target		\$ 28,700,000

2. in the event that the ECA is modified or smoothed from a month-to-month matching of costs and revenues, that reconsideration be given to adding an allowance to the Target;

3. budgeting and rate-making consider progress toward the Target over the next three years and other issues important to financial ratings, such as debt-service coverage;

4. the assessment and its bases continue to be reviewed at intervals of three years.

**DETERMINATION OF PRUDENT AND APPROPRIATE
CASH RESERVE LEVELS FOR
LODI ELECTRIC UTILITY**

NOVEMBER 2006

PURPOSE

To determine prudent and appropriate levels of cash reserves that should be maintained by Lodi Electric Utility.

BACKGROUND

In Lodi, the cost of operating and maintaining its electrical system is supported primarily by retail rates. Historically, these costs have had some degree of predictability, however, in recent times price volatility as a result of power scarcity, natural gas price increases and environmental compliance issues have created periods of price instability. Such effects have been most notable in energy markets over the past few years as city councils and utility boards have struggled with rate setting decisions that relate to maintaining the financial health of their utilities. Unlike those utilities that have strong cash positions, Lodi Electric Utility finds itself in a cash poor position as a result of some past decisions relating to fuel markets, purchased power and rates.

Lodi Electric Utility recognizes that maintaining adequate cash reserves is an operational need as well as a primary determinate of its bond ratings. Since Lodi Electric Utility is a member of the Northern California Power Agency (NCPA), it is faced with the additional consideration that its financial situation also has an effect upon NCPA's future financings , bond ratings and costs.

Since the establishment of reserves is often viewed as a policy issue, the determination of appropriate reserve levels is best decided by the City Council. For that reason, Lodi Electric Utility has undertaken this study to develop a criteria and recommendations to advise the City Council on the level of reserves needed to maintain the fiscal health of its electric system.

STUDY APPROACH

The process used to develop the recommendations found in this report included:

- Consideration of the contingencies and probabilities of Lodi Electric Utility encountering those contingencies
- A review of reserves levels in the electric utility industry
- A limited survey of the practices employed by comparably sized California municipal utilities
- Discussions with Lodi Electric staff.

The focus of this study is not on those reserve balances associated with the issuance of bonds, but rather on those more commonly set-aside by businesses for general,

particular or contingency purposes. It is also important to note that this study is not designed to determine the adequacy of revenues generated from utility billings to support reserve funds. It is presented on a revenue-neutral basis and does not address utility rates or revenues.

ANALYSIS

Cash reserves are highly liquid assets that are set aside by business organizations to provide funds to address operational contingencies. Factors that guide the types and sizes of reserves vary from organization to organization and business to business. Both business and governmental organizations that are well managed generally maintain cash reserves in amounts appropriate for the risks associated with their line of work. The size of the reserve is generally based upon an assessment of specific contingencies that might require the use of fund reserves and the probability of such events occurring.

Reserves are often classified in the following manner:

Operating Reserves

Most utilities maintain Operating Reserves in one form or another. The amount or level of reserves is generally based upon providing “coverage” of expenses over a number of days. Typically, Operating Reserves are sized to cover 30-60 days’ expenses. Operating Reserves represent the most common form of cash reserves in place in the utility industry.

Capital Reserves

A second type of reserve that is often encountered among capital intensive businesses is Capital Reserves. Irrespective of whether they are governmental or investor-owned, utilities by their very nature are highly capital intensive. That is, a lot of high cost infrastructure is necessary for a utility to function properly. As a result, utilities often issue bonds to finance a “plant” that will last for many years. As well, Capital Reserve Funds are often set up to fund the emergency replacement of expensive capital equipment. For example, an electric utility may establish a capital reserve fund at an amount sufficient to fund the replacement of a failure of a turbine-generator, its largest system contingency. Capital Reserves that are called upon to fund capital projects are generally replenished from subsequent bond issues or rate revenue.

General Reserves

General Reserves are often established as a “catch all” to address either a wide range of typically unspecified/undefined contingencies. Because they are not created with specific intent, they are often subject to criticism particularly when funded with ratepayer dollars. It is not recommended that Lodi Electric Utility consider establishing General Reserves at this time.

Special/Specific Reserves

Reserves are often created and designated for specific purposes. For example, in the last decade many California municipal electric utilities established temporary reserves to help ensure their competitiveness in the volatile restructured electric utility environment. These reserves were often labeled “Stranded Investment Funds,” “Competitiveness Funds,” “Rate Stabilization Reserves,” or other similar titles which are somewhat descriptive of their purpose.

Debt Service or Bond Reserves

Issuers of debt sometimes maintain a debt reserve fund equal to some multiple of the average periodic debt service payment. This requirement could even be formalized in the form of a bond resolution associated with the borrowing. Utility debt service payments generally become due twice a year. The existence of a debt service reserve policy and associated funding could also send a favorable signal to investors and rating agencies. If Operating Reserves take debt service obligations into account, the establishment of a debt service reserve is generally not warranted.

DISCUSSION

Operating Reserves, sometimes referred to as working capital are well suited for addressing normal variations from planned or budgeted cash flows, as well as addressing contingencies that may arise from utility operations. They are generally established by formal policy. Restricted cash reserves set equal to 30 to 60 days operating costs are typical in the electric utility industry. Many California municipal utilities have historically conducted business with only operating reserves and such additional cash reserves as might be required under bond covenants.

Capital Reserves are often appropriate for utilities that own large power facilities. Also, some utilities set aside capital reserves associated with their participation in shared generation or transmission projects, such as those sponsored by NCPA. Beyond the requirement to fund its share of capital reserves for joint power facilities, no need has been noted for Lodi Electric Utility to establish capital reserves for additional power supply. There are, however, capital need contingencies associated with its on-site infrastructure.

The establishment of a Special Reserve to ensure that Lodi Electric Utility “remains competitive” during this period following the unsuccessful restructuring of the electric utility industry in California warrants some discussion. During early 2001 power price volatility exceeded what anyone could have predicted. Even though California power markets have now somewhat stabilized, albeit at higher levels than those of ten years ago, consideration should still be given to maintaining a special reserve to ensure Lodi Electric rate competitiveness at least for the next several years. However, just like ten years ago when electrical restructuring was in its infancy, it is not wise for anyone to pretend to have knowledge of what future power costs might be. Still, the basis for setting the level of special reserves remains the same – risk management.

Establishment of a Debt Service Reserve could have value as an indication to rating agencies that Lodi Electric Utility is taking its recent downgrading by Fitch Ratings seriously and that among the steps it is taking to strengthen its cash position, it is formulating one to specifically address lender concerns.

COMPARISON WITH LOCAL PRACTICES

The attached limited survey, Appendix A, illustrates how each of five similar sized and larger California municipalities address fund reserves. It is note worthy that few have formal council policies that address the requirement for and level of cash reserves, but that all maintain operating reserves to some degree. For those utilities that have council directed policies with respect to operating reserves, the levels range from 30 to 45.6 days. (The 45.6-day period results from a policy requiring that operating reserves be set at 1/8th of annual expenses.) Operating reserves for electric as well as water utilities are typically found to be in the 30 to 45 day range, although 15-day and 60-day levels are sometimes encountered.

RECOMMENDATIONS

It is recommended that Lodi Electric Utility establish an Operating Cash Reserve Fund set at an amount equal to 45 days of its budgeted operating costs in FY07. Establishing operating reserves at this level is consistent with both local and nationwide electric utility practices. (Normally, the most recent fiscal year would serve as the base year, however, because last year was highly untypical the current budget year is proposed to be used as the base year.)

It is also recommended that a Capital Reserve Fund in the amount of \$500,000 be established. This is roughly the cost to replace and install a 66/12-kV substation transformer, which represents the largest single contingency on the Lodi Electric Utility system.

It is further recommended that the Rate Stabilization Fund be set in the amount that is reflective of a 20% purchased power increase over a six month period. For FY07, this amount would be \$4,200,000.

FISCAL IMPACT

Referring to Table 1 below, at the end of FY 2006, Lodi Electric Utility had approximately \$14 Million in various unrestricted accounts or funds. Approximately \$10.6 Million of that amount, however, was from bond proceeds which have restrictions placed on their use. The remaining approximate \$0.5 Million (Lodi Electric Utility operating reserves) represents less than three days of working capital on projected FY 2007 expenses of approximately \$66.5 Million. However, the nearly \$3.2 million that Lodi Electric Utility has "on account" with NCPA can viewed as a contributor to the recommended operating reserve total, since the NCPA Operating Reserve can be used by Lodi Electric to offset NCPA power supply costs and may be returned to the utility

upon request. For this reason it is appropriate to consider the NCPA General Operating Reserve toward meeting the recommended 45-day operating reserve requirement as developed in Table 2.

Table 1: Total Cash Available – End of FY2006

Fund Designation	Current Balances*
Operating Reserve	\$ 520,000
Capital Reserve	-0-
Rate Stabilization Reserve	-0-
Debt Service Reserve	-0-
Bond Proceeds Balance**	\$ 6,532,000
NCPA Operating Reserve**	\$ 3,165,600
Total Cash Available	\$10,217,600

* As provided by Lodi Electric Utility

** Restricted Use Funds. Total on hand at end of FY2006 was \$10,380,000 -- approximately \$6.532 available after prior capital project commitments.

As shown in Table 2 below, establishment of the three reserve funds at the recommended levels would require that an additional \$9,215,000 (\$12,900,000 - \$3,685,000) be set aside. It is not likely that funding at the recommended levels can be accomplished quickly. Lodi Electric Utility will need to consider rate increases or surcharges to convince its customers and rating agencies that it is taking appropriate steps to operate its utility on a stronger financial platform.

Table 2: Fund Reserve Comparison of Current and Recommended Levels Exclusive of Restricted Funds

Fund Designation	Current Balances*	Recommended Minimum Balances	Shortfalls
45-Day Operating Reserve**	\$ 520,000		
NCPA General Operating	<u>\$3,165,000</u>		
	<u>\$3,685,000</u>	\$ 8,200,000	\$ 4,515,000
Capital Reserve	-0-	\$ 500,000	\$ 500,000
Rate Stabilization Reserve	-0-	\$ 4,200,000	\$ 4,200,000
Total Cash on hand	\$3,685,000	\$ 12,900,000	\$9,215,000

* As of 6/30/06

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APPENDIX A

CASH FUND RESERVE PRACTICES
OF
SELECTED CALIFORNIA MUNICIPAL UTILITIES

	MUNI #1	MUNI #2	MUNI #3	MUNI #4	MUNI #5
Utility Department	Electric + H₂O	Electric + H₂O	Electric + H₂O	Electric	Electric + H₂O
Formal Reserve Policy set by City Council	Yes	No	No	No	Yes
Co-mingled Funds?	No	No	No	No	No
Operating Reserve?	Yes, 30 days	Yes, undefined	Yes, 45 days	Yes, undefined	Yes, 45.6 days
Capital Reserve?	Yes	No	Yes	No	No

NORTHERN CALIFORNIA POWER AGENCY
GENERAL OPERATING RESERVE CONTINGENT LIABILITIES

NOTE: Purpose of this document is to communicate: (1) estimated reasonably possible contingent liabilities, and (2) current member G.O.R. reserve funding levels. Because pervasive uncertainties associated with disfunctional world-wide economic and market conditions may adversely affect members' near term ability to maintain funded reserves consistent with "good utility practice", a conservative aggregate probability of 100% has been assumed throughout.

	POTENTIAL ESTIMATED FUNDING REQUIRED FROM THE GENERAL OPERATING RESERVE								FUNDING SUMMARY		
	Market Power Volatility Cost Reserve (A)	Local Resource Adequacy (B)	Unfunded Geo Decommissioning (C)	Benefits Stabilization Reserve (D)	Western Base Resource Reserve (E)	Self-Insured Loss on Plants (F)	Hydro Proj#1 Dry Year Impact (G)	Agency Liability Reserve (H)	Total Estimated Funding Requirements	Less GEN OP RES Avail. Balance 3/31/2009	Funding Excess (Deficit) 3/31/2009
Alameda	\$ -	\$ -	\$ 4,192,394	\$ 203,984	\$ 300,906	\$ 4,380,937	\$ 2,521,687	\$ 11,765	\$ 11,611,672	\$ 19,704,296	\$ 8,092,624
BART	-	-	-	37,204	114,818	-	-	11,765	163,787	1,326,003	1,162,216
Biggs	104,588	-	56,370	10,792	77,643	58,906	-	11,765	320,064	213,810	(106,254)
Gridley	188,667	-	83,438	17,420	173,786	87,191	0	11,765	562,266.0529	361,386	(200,880)
Healdsburg	297,166	-	912,356	46,158	51,666	953,387	418,600	11,765	2,691,099	3,299,578	608,479
Lodi	744,516	-	2,552,809	223,030	136,537	2,667,617	2,614,989	11,765	8,951,263	5,263,921	(3,687,342)
Lompoc	644,183	-	914,095	61,824	71,158	955,204	579,988	11,765	3,238,216	2,999,148	(239,068)
Palo Alto	2,809,756	-	-	201,390	3,234,111	4,876,228	5,779,706	11,765	16,912,956	1,510,428	(15,402,528)
PCWA	N/A	-	-	136	-	-	-	11,765	11,901	15,500	3,599
Plumas-Sierra	-	-	174,078	36,712	461,963	359,547	426,165	11,765	1470229.759	566,915	(903,315)
Port of Oakland	349,432	-	-	15,480	158,937	-	-	11,765	535,614	136,829	(398,785)
Redding	N/A	-	-	12,494	-	-	-	11,765	24,259	451,456	427,197
Roseville	N/A	-	1,957,568	190,274	-	2,552,999	2,476,671	11,765	7,189,276	1,509,910	(5,679,366)
Santa Clara	N/A	-	11,023,394	498,334	-	11,519,147	7,640,530	11,765	30,693,169	19,498,659	(11,194,510)
Truckee-Donner	N/A	-	-	5,888	-	-	-	11,765	17652.70588	211,394	193,741
Turlock Irr. Dist.	N/A	-	1,572,039	58,404	-	1,642,738	-	11,765	3,284,946	1,481,908	(1,803,038)
Ukiah	571,056	-	1,394,236	67,542	90,873	1,456,939	514,424	11,765	4,106,835	7,065,309	2,958,474
Total	\$ 5,709,364	\$ -	\$ 24,832,777	\$ 1,687,066	\$ 4,872,397	\$ 31,510,840	\$ 22,972,760	\$ 200,000	\$ 91,785,204	\$ 65,616,450	\$ (26,168,753.54)
Total Possible	\$ 5,709,364	\$ -	24,832,777	\$ 1,687,066	\$ 4,872,397	\$ 31,510,840	\$ 22,972,760	\$ 200,000	\$ 91,785,204		
Est Probability	x	x	x	x	x	x	x	x			
	100%	100%	100%	100%	100%	100%	100%	100%			
Total	\$ 5,709,364	\$ -	\$ 24,832,777	\$ 1,687,066	\$ 4,872,397	\$ 31,510,840	\$ 22,972,760	\$ 200,000	\$ 91,785,204		

Footnotes:

- (A) Average Annual Electric Market prices in \$/MWh: (High = \$78.56) (Median = \$57.72).
 (B) TBD.
 (C) Current estimated unfunded decommissioning cost in 2007 escalated dollars to current date. Unfunded portion is current cost less: Funded portion with interest earned to-date. Decommissioning is currently planned to begin in or about 2030 and be completed by 2034.
 (D) Voluntary dedicated benefits stabilization reserve for future levelization of medical and retirement benefits costs, if and when required by actuary.
 (E) Estimated Green Book cost of replacement power necessary to support WAPA in 2010-2011 in the event of a critical dry year. Yellow Book update in process by WAPA.
 (F) Overall cost estimate of amount individual participants' might reasonably expect to fund for insurance deductibles, self-insured retention, or uninsured risk in the event of a property loss. NOT worst case scenario--rather, highest probable maximum loss for each participant because of diverse ownership percentages.
 (G) Estimated replacement power cost differential between average and dry year generation at high market forecast price.
 (H) Equal shares of \$200,000 liability insurance deductible in the event of such a general loss.

RESOLUTION NO. 2011-39

A RESOLUTION OF THE LODI CITY COUNCIL APPROVING
THE REVISED ELECTRIC RESERVE POLICY

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WHEREAS, on January 17, 2007, the City Council adopted Resolution No. 2007-13, establishing an Electric Reserve Fund Policy ("Policy"); and

WHEREAS, the Policy set an initial Electric Reserve Target Level ("Target") of \$12.9 million as follows:

- Operating Reserves: \$8.2 million, equal to **45** days of budgeted operating costs
- Capital Reserve: \$500,000, equal to the cost of largest distribution system contingency
- Rate Stabilization Fund: \$4.2 million, equal to 20 percent of annual market power costs; and

WHEREAS, the Electric Utility Department's ("EUD") available cash reserves as of June 30, 2010, were \$12.1 million compared to the \$3.6 million cash reserves available June 30, 2006; and

WHEREAS, the Policy also provided for an updated assessment of the Target every three years with a report to the City Council; and

WHEREAS, the attached report provides the City Council with an updated assessment of prudent cash reserve levels for Lodi Electric Utility.

NOW, THEREFORE, ~~BE~~ IT RESOLVED that the Lodi City Council hereby approves the Revised Electric Reserve Policy as follows:

Fund Designation	Basis	For FY 2011
Operating Reserve	90 days cash on hand	\$18,900,000
Capital Reserve	Largest distribution system contingency	\$ 500,000
NCPA - General Operating Reserve	As identified by NCPA plus allowance for unanticipated studies	\$ 9,300,000
		\$ 28,700,000

Dated: March 16, 2011

=====


I hereby certify that Resolution No. 2011-39 was passed and adopted by the City Council of the City of Lodi in a regular meeting held March 16, 2011, by the following vote:

AYES: COUNCIL MEMBERS – Hansen, Katzakian, Mounce, Nakanishi, and Mayor Johnson

NOES: COUNCIL MEMBERS – None

ABSENT: COUNCIL MEMBERS – None

ABSTAIN: COUNCIL MEMBERS – None



RANDI JOHL
City Clerk



ELECTRIC UTILITY RESERVE POLICY



City Council Meeting
March 16, 2011



Background

- Operational and financial importance
- Cash reserves target is policy issue
- Navigant Consulting recommendation, prudent cash reserve level for EUD, 2006



Initial Target Adopted by Council

- **Operating Reserve** of 45 days of budgeted operating costs (\$8.2 million)
- **Capital Reserve** equal to largest local contingency (\$500,000)
- **Rate Stabilization** equal to 20% of projected market power costs (\$4.2 million)

*Adopted by Lodi City Council, Resolution 2007-13, January 17, 2007



Current Electric Reserve Policy

- Initial Electric Reserve Fund Target of \$12.9 million
- Goal to reach target by year-end FY2010
- Highlight cash “raising” opportunities in budget process
- One-time cash receipts dedicated to increasing reserves
- Consider all options to increase reserves
- Reassess reserve formula at least every 3 years



June 30, 2010 Reserve Status

<u>Location</u>	<u>Balance</u>
Lodi	\$12,125,835
NCPA General Operating Reserve (GOR)	\$11,011,668
Total Cash on Hand	\$23,137,503
Original Reserve Target reached by June 30, 2010	



Updating Initial Target

- ▣ Contingent Liabilities with NCPA
- ▣ Fitch Ratings Criteria
 - “A” public utilities median 107 days cash
 - “AA” public utilities median 121 days cash
 - Ratings affect:
 - ▣ Competitive power contract pricing
 - ▣ Future costs on bonded debt

(Lodi currently has approximately 60 days available cash locally.)



NCPA Member Survey

<u>NCPA Member</u>	<u>Policy for Cash on Hand (days)</u>	<u>S&P Rating</u>	<u>Fitch Rating</u>
Alameda Municipal Power	145	A-	A-
Palo Alto Utilities	55	AA-	-
Redding Electric	110	-	A
Roseville Electric	146	A+	A+
Silicon Valley Power	146	A	A
Truckee Donner PUD	61	A	-
Turlock Irrigation District	91	A+	A+
<i>Average = 108</i>			



Updating the Target

NCPA recommendations for GOR:

<u>Contingent Liability</u>	<u>Required FY11 Funding</u>
Hydro Plant & Western Dry Year	\$2,800,000
Self-Insured Loss on Plants	\$2,700,000
Unfunded Geo Decommissioning	\$2,600,000
Market Volatility Cost Reserve	\$700,000
Other (combined)	\$200,000
Total Cash Target in GOR	\$9,000,000



New Reserve Recommendation

<u>Fund Designation</u>	<u>Basis</u>	<u>FY 2011</u>
Operating Reserve	90 days cash on hand	\$18,900,000
Capital Reserve	Largest distribution system contingency	\$500,000
NCPA General Operating Reserve	As Identified by NCPA plus allowance for unanticipated studies	\$9,300,000
Total Target		\$28,700,000



Questions / Comments?